

Macomb Academy

**Financial Report
with Supplemental Information
June 30, 2007**

Macomb Academy

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Independent Auditor's Report

To the Board of Directors
Macomb Academy

We have audited the accompanying financial statements of the governmental activities and the major fund of Macomb Academy (the "Academy") as of and for the year ended June 30, 2007, which collectively comprise Macomb Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Macomb Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Macomb Academy as of June 30, 2007 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Directors
Macomb Academy

In accordance with *Government Auditing Standards*, we have also issued a report dated October 18, 2007 on our consideration of Macomb Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

October 18, 2007



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Report Letter on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of the Basic Financial Statements Performed in
Accordance with *Government Auditing Standards*

To the Board of Directors
Macomb Academy

We have audited the financial statements of the governmental activities and the major fund of Macomb Academy as of and for the year ended June 30, 2007, which collectively comprise the Macomb Academy's basic financial statements, and have issued our report thereon dated October 18, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Macomb Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Macomb Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Macomb Academy's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following control deficiency to be a significant deficiency in internal control over financial reporting:

To the Board of Directors
Macomb Academy

- During our audit testing, we noted that cash and accounts payable were relieved for certain checks written and mailed subsequent to year end. Technically, since the accounts payable was still outstanding as of June 30, 2007, a reclassification entry was necessary. In addition, part of the check run included August's rent payment, which was classified as a prepaid expenditure at year end. Since the August rent was paid in July, it should not be a prepaid cost at June 30, 2007. Expenditures were properly recorded related to the checks written and the adjustments involve reclassifications of assets and liabilities. Once these items were discussed, entries were immediately posted to the Academy's books. It is our understanding that procedures have been put in place for the future.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 18, 2007

Macomb Academy

Management's Discussion and Analysis

This section of Macomb Academy's (the "Academy") annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2007. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Macomb Academy financially as a whole. The Academy-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Academy-wide financial statements by providing information about the Academy's operating fund - the General Fund.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Academy-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for the General Fund

Reporting the Academy as a Whole - Academy-wide Financial Statements

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Macomb Academy

Management's Discussion and Analysis (Continued)

These two statements report the Academy's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

The statement of net assets and the statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction and support services. State aid and state and federal grants finance most of these activities.

Reporting the Academy's Most Significant Funds - Fund Financial Statements

The Academy's fund financial statements provide detailed information about the Academy's General Fund, which is required to be established by state law. The Academy may establish other funds from time to time to help it control and manage money for particular purposes, or to show that it is meeting legal responsibilities for using grants and other money. The governmental fund of the Academy uses the following accounting approach:

Governmental Fund - All of the Academy's services are reported in one governmental fund, the General Fund. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. It is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Academy and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation.

Macomb Academy

Management's Discussion and Analysis (Continued)

The Academy as a Whole

Recall that the statement of net assets provides the perspective of the Academy as a whole. Table I provides a summary of the Academy's net assets as of June 30, 2007 and 2006:

TABLE I

	Governmental Activities	
	2007	2006
	(in thousands)	
Assets		
Current and other assets	\$ 292.0	\$ 198.0
Capital assets	24.6	22.3
Total assets	316.6	220.3
Liabilities - Current liabilities	59.9	31.1
Net Assets		
Invested in capital assets	24.6	22.3
Unrestricted	232.1	166.9
Total net assets	<u>\$ 256.7</u>	<u>\$ 189.2</u>

The above analysis focuses on the Academy's net assets (see Table I). The change in net assets of the Academy's governmental activities is discussed below (see Table 2). The Academy's net assets were \$256.7 thousand at June 30, 2007. Capital assets totaling \$24.6 thousand is the original cost, less depreciation, of the Academy's capital assets. The remaining amount of net assets (\$232.1 thousand) was unrestricted.

The \$232.1 thousand in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the Academy to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

Macomb Academy

Management's Discussion and Analysis (Continued)

The results of this year's operations for the Academy as a whole are reported in the statement of activities, which shows the changes in net assets for fiscal years June 30, 2007 and 2006 (see Table 2):

TABLE 2

	Governmental Activities	
	2007	2006
	(in thousands)	
Revenue		
Program revenue - Grants	\$ 137.0	\$ 129.0
General revenue:		
State foundation allowance	804.5	736.8
Other	74.7	76.9
Total revenue	1,016.2	942.7
Functions/Program Expenses		
Instruction	481.7	562.3
Support services	439.0	408.3
Community services	23.0	22.4
Depreciation (unallocated)	5.0	5.0
Total functions/program expenses	948.7	998.0
Increase (Decrease) in Net Assets	\$ 67.5	\$ (55.3)

As reported in the statement of activities, the cost of all of our governmental activities this year was \$948.7 thousand. Certain activities were partially funded by other governments and organizations that subsidized certain programs with grants (\$137.0 thousand). We paid for the remaining "public benefit" portion of our governmental activities with \$879.2 thousand in state foundation allowance and other revenues, such as interest and general entitlements.

The Academy experienced a increase in net assets of \$67.5 thousand. Key reasons for the change in net assets included expected decreases in overall costs due to budget constraints. Since state aid constitutes the vast majority of Academy operating revenue sources, the board of directors and administration must annually evaluate the needs of the Academy and balance those needs with state-prescribed available unrestricted resources.

Macomb Academy

Management's Discussion and Analysis (Continued)

The Academy's General Fund

As we noted earlier, the Academy uses the General Fund to help it control and manage money for particular purposes. Looking at this fund helps the reader consider whether the Academy is being accountable for the resources the State and others provide to it, and may provide more insight into the Academy's overall financial health.

As the Academy completed the 2007 fiscal year, the General Fund reported a fund balance of \$232 thousand, which is an improvement of \$65 thousand from the previous year. The Academy continues to monitor its budget and streamline operations to reduce the impact on fund equity. In the 2007 fiscal year, the Academy experienced a pupil count increase that increased the foundation revenue received from the State, as well as an increase in the foundation allowance.

General Fund fund balance is available to fund costs related to allowable school operating purposes.

General Fund Budgetary Highlights

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was adopted just before year end. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplementary information of these financial statements.

No significant budget revisions were made during the year.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2007, the Academy had \$72 thousand invested in capital assets, including furniture and equipment and vehicles. This amount represents an increase of \$7 thousand from last year.

Furniture and equipment	\$ 47,977
Vehicles	<u>24,362</u>
Total capital assets	<u><u>\$ 72,339</u></u>

The purchase of a building is planned to take place in December 2007, which will be financed using bonds. We present more detailed information about our capital assets in the notes to the financial statements.

Macomb Academy

Management's Discussion and Analysis (Continued)

Debt

At the end of the year, the Academy had no long-term debt outstanding.

Economic Factors and Next Year's Budgets and Rates

Our board of directors and administration considered many factors when setting the Academy's 2007-2008 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2008 fiscal year is 25 percent and 75 percent of the February 2007 and September 2007 student counts, respectively. The fiscal year 2008 budget was adopted in June 2007, based on an estimate of students that will be enrolled in September 2007. Approximately 80 percent of total General Fund revenue is from state funding. As a result, the Academy's funding is heavily dependent on the State's ability to fund school operations. Based on enrollment data at the start of the 2007-2008 school year, the fall student count is approximately equal to the estimates used in creating the 2007-2008 budget. Once the final student count and related per pupil funding is validated, state law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations.

Since the Academy's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue to be received will depend on the State's ability to collect revenues to fund its appropriation to academies. Although the State's school aid budget has not yet been finalized, the Academy anticipates that the foundation allowance for the 2007-2008 fiscal year will be no less than the \$7,085 per pupil foundation allowance that was allocated for the previous year.

Macomb Academy

Statement of Net Assets June 30, 2007

	Governmental Activities
Assets	
Cash and cash equivalents (Note 3)	\$ 100,174
Due from other governmental units	174,304
Prepaid costs	17,565
Capital assets - Net (Note 4)	<u>24,639</u>
Total assets	316,682
Liabilities	
Accounts payable	29,494
Accrued payroll and other liabilities	<u>30,451</u>
Total liabilities	<u>59,945</u>
Net Assets	
Investment in capital assets	24,639
Unrestricted	<u>232,098</u>
Total net assets	<u><u>\$ 256,737</u></u>

Macomb Academy

Statement of Activities Year Ended June 30, 2007

	Program Revenues	Governmental Activities
		Net (Expense)
	Operating Grants/ Contributions	Revenue and Changes in Net Assets
Expenses		
Functions/Programs		
Primary government - Governmental activities:		
Instruction	\$ 481,723	\$ (344,770)
Support services	438,990	(438,990)
Community services	22,951	(22,951)
Depreciation (unallocated)	5,045	(5,045)
Total governmental activities	<u>\$ 948,709</u>	<u>\$ 136,953</u>
		(811,756)
General revenues:		
State aid not restricted to specific purposes		804,544
Other		74,707
Total general revenues		<u>879,251</u>
Change in Net Assets		67,495
Net Assets - Beginning of year		<u>189,242</u>
Net Assets - End of year		<u>\$ 256,737</u>

Macomb Academy

Governmental Fund - General Fund Balance Sheet June 30, 2007

Assets

Cash and cash equivalents (Note 3)	\$ 100,174
Due from other governmental units	174,304
Prepaid costs	<u>17,565</u>
Total assets	<u><u>\$ 292,043</u></u>

Liabilities and Fund Balance

Liabilities

Accounts payable	\$ 29,494
Accrued payroll and other liabilities	<u>30,451</u>
Total liabilities	59,945

Fund Balance

Reserved - Prepaid costs	17,565
Unreserved - Undesignated	<u>214,533</u>
Total fund balance	<u>232,098</u>
Total liabilities and fund balance	<u><u>\$ 292,043</u></u>

Macomb Academy

Governmental Fund - General Fund Reconciliation of the Balance Sheet of the General Fund to the Statement of Net Assets June 30, 2007

Fund Balance - Total General Fund	\$ 232,098
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Amounts reported for governmental activities in the statement of net assets are different because capital assets used in governmental activities are not financial resources and are not reported in the governmental funds:

Cost of the capital assets	\$ 72,339	
Accumulated depreciation	<u>(47,700)</u>	<u>24,639</u>

Net Assets - Governmental Activities	<u>\$ 256,737</u>
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Macomb Academy

Governmental Fund - General Fund Statement of Revenue, Expenditures, and Changes in Fund Balance Year Ended June 30, 2007

Revenue

Local sources	\$ 74,707
State sources	804,544
Federal sources	81,070
Interdistrict sources	<u>55,883</u>
Total revenue	1,016,204

Expenditures

Current:	
Instruction	481,723
Support services	433,613
Community services	22,951
Capital outlay	<u>12,703</u>
Total expenditures	<u>950,990</u>

Net Change in Fund Balance

65,214

Fund Balance - Beginning of year

166,884

Fund Balance - End of year

\$ 232,098

Macomb Academy

Governmental Fund - General Fund Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance of the General Fund to the Statement of Activities Year Ended June 30, 2007

Net Change in Fund Balance - Total General Fund	\$ 65,214
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Amounts reported for governmental activities in the statement of activities are different because governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation - Depreciation expense

<u>2,281</u>

Change in Net Assets of Governmental Activities	<u>\$ 67,495</u>
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Macomb Academy

Notes to Financial Statements June 30, 2007

Note I - Summary of Significant Accounting Policies

The accounting policies of Macomb Academy (the "Academy") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy:

Reporting Entity

The Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982, as amended, on July 28, 1995.

The Academy has entered into a contract with Central Michigan University (CMU) to charter a public school academy through June 30, 2012. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the state constitution. CMU is a limited fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays CMU 3 percent of its state aid revenue as administrative fees. The total administrative fee paid for the year ended June 30, 2007 to CMU was \$26,840.

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the Academy. Based on application of the criteria, the Academy does not contain component units.

Academy-wide and Fund Financial Statements

The Academy-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Academy. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy-wide activities are considered governmental activities.

Note I - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported individually in the fund financial statements. The General Fund is the Academy's only fund and is reported as a major fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Academy-wide Financial Statements - The Academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all unrestricted state aid.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Academy.

Macomb Academy

Notes to Financial Statements June 30, 2007

Note 1 - Summary of Significant Accounting Policies (Continued)

The Academy reports the following major governmental fund:

General Fund - The General Fund is Macomb Academy's primary operating fund. It accounts for all financial resources of the Academy.

Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - Trade receivables are shown net of an allowance for uncollectible amounts. The Academy considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Prepaid Costs - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both Academy-wide and fund financial statements.

Capital Assets - Capital assets, which include furniture, equipment, and vehicles, are reported in the applicable governmental column in the Academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets.

Furniture, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Furniture and equipment	5-20 years
Vehicles	7 years

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications - Comparative data is not included in Macomb Academy's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General Fund. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function, which is a summarization of the Academy's line-item adopted budget. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits academies to amend their budgets during the year. The Academy increased budgeted amounts during the year in response to changes in funding sources, changes from anticipated pupil counts, and necessary expenditures. The Academy did not have significant expenditure budget variances.

The amount of outstanding encumbrances (purchase orders, contracts, etc.) at June 30, 2007 is not known. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Note 3 - Deposits and Investments

State statutes and the Academy's investment policy authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority.

The Academy has designated one bank for the deposit of its funds.

Note 3 - Deposits and Investments (Continued)

The Academy's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk of bank deposits is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy does not have a deposit policy for custodial credit risk. At year end, the Academy's deposit balance of \$142,283 included no bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk of investments is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Academy does not have a policy regarding custodial credit risk, nor does the Academy hold investments with custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Academy does not have a policy regarding interest rate risk, nor does the Academy hold investments with interest rate risk.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Academy's investment policy does not further limit its investment choices. The Academy does not hold investments with credit risk.

Concentration of Credit Risk

The Academy places no limit on the amount it may invest in any one issuer. The Academy does not have a policy regarding concentration of credit risk. The Academy does not hold any investments with concentration of credit risk.

Macomb Academy

Notes to Financial Statements June 30, 2007

Note 3 - Deposits and Investments (Continued)

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value, as a result of changes in foreign currency exchange rates. State law and the Academy's policy prohibit investments in foreign currency.

Note 4 - Capital Assets

Capital asset activity of the Academy's governmental activities was as follows:

	Balance July 1, 2006	Additions	Disposals	Balance June 30, 2007
Capital assets being depreciated:				
Furniture and equipment	\$ 40,651	\$ 7,326	\$ -	\$ 47,977
Vehicles	24,362	-	-	24,362
Subtotal	65,013	7,326	-	72,339
Accumulated depreciation:				
Furniture and equipment	28,733	1,565	-	30,298
Vehicles	13,922	3,480	-	17,402
Subtotal	42,655	5,045	-	47,700
Net capital assets being depreciated	<u>\$ 22,358</u>	<u>\$ 2,281</u>	<u>\$ -</u>	<u>\$ 24,639</u>

Depreciation expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

Note 5 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inception.

Note 6 - Defined Benefit Pension Plan and Postemployment Benefits

Plan Description - The Academy participates in the Michigan Public Schools Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the Academy. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public Schools Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at P.O. Box 30171, Lansing, MI 48909-7671.

Funding Policy - Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each academy is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health-care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 16.34 percent and 17.74 percent of the covered payroll to the plan for the periods from July 1, 2006 through September 30, 2006 and October 1, 2006 through June 30, 2007, respectively. Basic plan members make no contributions, but member investment plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The Academy's contributions to the MPERS plan for the years ended June 30, 2007, 2006, and 2005 were approximately \$70,990, \$74,900, and \$65,600, respectively.

Postemployment Benefits - Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for post-employment healthcare benefits are included as part of the Academy's total contribution to the MPERS plan discussed above.

Note 7 - Service Agreement

The Academy entered into a service agreement with Mount Clemens Community Schools (MCCS) under which MCCS provided accounting services for the Academy through October 31, 2006. The Academy paid \$8,000 to MCCS for such services during the year ended June 30, 2007.

Macomb Academy

Notes to Financial Statements June 30, 2007

Note 7 - Service Agreement (Continued)

The Academy has entered into a service agreement with Macomb Intermediate School District (MISD) under which MISD provides accounting services for the Academy effective November 1, 2006. The Academy paid \$12,664 to MISD for such services during the year ended June 30, 2007.

Note 8 - Lease Agreement

The Academy is under an operating lease agreement with an unrelated partnership for its building and certain equipment through July 31, 2010. The Academy is responsible for property taxes, insurance, and certain repairs and maintenance related to the facility. Lease payments were \$118,960 for the 2007 fiscal year. Future minimum rental payments under the terms of the lease are as follows:

Years Ending <u>June 30</u>	<u>Amount</u>
2008	\$ 122,664
2009	126,368
2010	130,072
2011	<u>10,865</u>
Total	<u>\$ 389,969</u>

Required Supplemental Information

Macomb Academy

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 75,425	\$ 75,375	\$ 74,707	\$ (668)
State sources	769,406	804,488	804,544	56
Federal sources	72,914	82,471	81,070	(1,401)
Interdistrict sources	55,188	49,625	55,883	6,258
Total revenue	972,933	1,011,959	1,016,204	4,245
Expenditures - Current				
Instruction	471,217	460,284	481,723	21,439
Support services:				
Pupil transportation	41,547	42,106	37,086	(5,020)
Board of Education	9,250	12,350	13,275	925
Executive administration	175,442	191,362	188,713	(2,649)
Other	10,500	18,600	18,240	(360)
Operations and maintenance	195,300	204,600	189,002	(15,598)
Community services	19,400	22,736	22,951	215
Total expenditures	922,656	952,038	950,990	(1,048)
Net Change in Fund Balance	50,277	59,921	65,214	5,293
Fund Balance - July 1, 2006	166,884	166,884	166,884	-
Fund Balance - June 30, 2007	<u>\$ 217,161</u>	<u>\$ 226,805</u>	<u>\$ 232,098</u>	<u>\$ 5,293</u>

Master Document

FIELD	VALUES
SchoolNameHeadings	Macomb Academy
SchoolNameText	Macomb Academy
CountyState	Clinton Township, Michigan
SchoolNameShort	Academy
SchoolNameShort's	Macomb Academy's
Year End	June 30, 2007
PriorYear	June 30, 2006
2YearPrior	June 30, 2005
Opinion Date	October 18, 2007
Comparative Date	June 30, 2006
a2000	2006
a1999	2005
a1998	2004



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October 18, 2007

Board of Trustees
Macomb Academy
39092 Garfield
Clinton Township, MI 48035

Dear Board Members:

We recently completed our audit of the financial statements of Macomb Academy (the "Academy") for the year ended June 30, 2007. As a result of our audit, and in addition to your financial report, we offer the following comments for your review and consideration. These items are presented to you as the policy making body of the Academy.

Financial Condition and Importance of Fund Equity

During the 2006-2007 school year, the Academy's General Fund revenues exceeded expenditures by approximately \$65,000. This resulted in an increase to General Fund equity to approximately \$232,000 as of June 30, 2007. We are pleased to see the progress made by the Academy as a result of prudent budget monitoring.

Given the continued uncertainties with State funding, budget planning and fund balance management will continue to be essential elements for the Academy's success. Most schools, including Macomb Academy, find any additional foundation allowance revenue does not offset the increases in expenditures, primarily in the salary and benefit area.

Funding - Past, Present, and Future

For the past several years, the State has used single year budgets for funding schools, and the 2006-07 fiscal year was no exception. In addition, the State has had to resort to proration in the past and significant one time fixes in 2007 to balance its budget; putting increased strain on school budgets. In fact, because of the struggling Michigan economy, the State has resorted to one time changes in school aid funding to fund schools for the past five fiscal years ending June 30, 2003, through 2007.

For the 2006-07 School Aid Fund budget, the State tapped resources in the pension system and future tobacco settlement funds to fully fund the school aid fund budget and prevent proration. This was necessary because the revenues dedicated to the School Aid Fund were not sufficient to pay the commitments of the fund. As late as June 2007, there was a possibility that the Academy's promised State aid could have had a significant proration. Clearly, school aid was not easy to predict.

With the 2006-07 fiscal year finally resolved, the Governor and Legislature recently passed a continuation budget for the 2007-08 fiscal year after a brief shut-down. They already replaced the Single Business Tax with the Michigan Business Tax and passed a new services tax. Now they continue to work out the details of the marathon budget session decisions recently made.

Concerns over the financial health of the school aid fund highlight the need for the Academy to continue the prudent monitoring of revenue and expenditures and to continue building fund equity.

Future MPSERS Contribution Rate

A few years ago, a study was done by Citizens Research Council that predicted the total MPSERS contribution rate will climb to over 20 percent in the near future. The initial rate for the plan year ending September 30, 2007, was set at 17.74 percent. However, as part of the overall plan to deal with the State's budget shortfall, MPSERS elected to suspend the normal "five-year smoothing" method as of October 1, 2006, and instead recognize all the previously unaccounted for investment gains as of that date. As part of the changes made for the 2006-07 fiscal year, the 2007-08 fiscal year retirement rate was determined. The rate for the fiscal year beginning October 1, 2007, will be 16.72 percent.

Caution should be exercised when projecting future MPSERS contribution rates for budgeting and planning purposes. The one-time fix described above holds rates below their normal levels for two years (September 30, 2007, and September 30, 2008). Then, without significant changes to the retirement system, it is expected that rates will revert to a much higher level.

Statements on Auditing Standards 112 and the Impact on the Current Audit

Beginning with this year's audit, national auditing standards now call for auditors to communicate matters to the governing body that may be useful to you in your oversight of the Academy's financial management. Specifically, they require us to report internal control issues to you that may be relatively minor, in order to allow you to evaluate their significance and make any changes you may deem appropriate. The purpose of these new standards is to allow you an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this new report on internal control will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

Our observations and comments regarding the Academy's internal controls, including any significant deficiencies or material weaknesses that we identified, have been reported to you in the accompanying Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. This report is included in the Academy's basic financial statements and we recommend these matters receive your consideration.

We appreciate the Board giving us the opportunity to serve as auditors for Macomb Academy. We thank Ms. Robyn Randazzo, Ms. Vicki Laseke, and everyone at the Academy for their courtesy and assistance extended to us during the audit. Please contact us if there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC



Christina M. Kostiuk

cc: Robyn Randazzo, Macomb Academy
Paul Bodiya, Chief Financial Officer, MISD
Vicki Laseke, Accountant, MISD